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Global Recession Expected: Introducing Coronavirus Economic Scenarios

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This article is part of a series on COVID-19 focusing on how the outbreak is affecting industries.

The expansion of the Coronavirus (COVID-19) outbreak into a global pandemic in March 2020 has shifted the global economic outlook into a recession. At the beginning of April, Euromonitor International downgraded the baseline global real GDP growth forecast for 2020 to a range of -1.5% to 0.0% (compared to 2.6-3.4%growth forecast in January 2020).

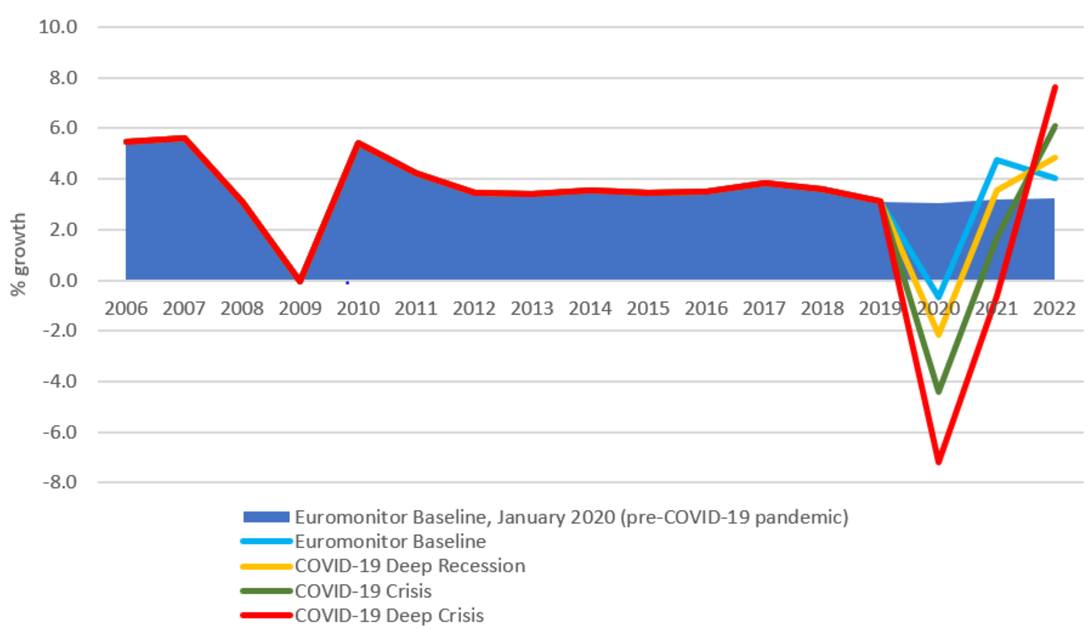
China's real GDP growth forecast has been cut to just 1.0% in 2020, while the US economy is expected to contract by 3.0%. The Eurozone economy is forecast to contract by 4.4% in 2020, with Italian real GDP declining by 7.0%. The size of the downgrades due to the COVID-19 pandemic reflect the strong impact of social distancing measures on economic activity. Each month of strict quarantine/lockdown is expected to reduce annual output growth in advanced economies by around three percentage points.

COVID-19 Scenarios Predict A Worse Impact than the Global Financial Crisis

In addition to updating the baseline forecast, we have introduced three adverse global scenarios to capture the major downside risks related to the COVID-19 pandemic. In our baseline forecast, the size of the contraction in economic activity is comparable to that during the 2008-2009 Global Financial Crisis. The projected world real GDP growth rate for 2020 is lower than in 2009, but trend growth was faster in the 2000s, so the deviation from trend growth is similar at around 4 percentage points below the pre-pandemic forecast. Our adverse downside risks scenarios are worse than the 2008-2009 financial crisis.

The baseline forecasts assume that strict social distancing measures successfully flatten infection rate curves over 1-2 quarters, with infection rates below 10% in key economies and case mortality rates that are less than 1% on average (accounting for a large number of mild or asymptomatic infections).

Global Real GDP Growth: 2006-2022



Source: Euromonitor International Macro Model, National Statistics.
Note: Global real GDP growth using PPP weights. Forecasts updated 6 April 2020

Risks of Health Crisis Turning into A Longer-term Financial Crisis

The pandemic is causing severe financial strains in many sectors of the economy, as businesses are forced to shut down and employees lose work shifts or are laid off. The hit to business revenues and household incomes risks turning a health crisis and temporary cuts in economic activity into a longer-term financial crisis.

Governments in advanced economies have reacted to the COVID-19 pandemic with unprecedented fiscal and credit stimulus measures, exceeding 10% of pre-pandemic output in some cases. The baseline outlook assumes these measures are enough to avoid massive business liquidations and eliminate most of the losses in disposable income for workers. As a result, the economy rebounds relatively quickly once social distancing measures are relaxed. Global real GDP growth is expected to improve to 3.7-5.7% in 2021.

However, the level of uncertainty around baseline forecasts is now unprecedented in the last 30 years. There is epidemiological uncertainty about the spread of COVID-19 and its death rate, as well as the length of strict social distancing measures. There is economic uncertainty about the ability of government credit and fiscal stimulus measures to counter negative financial amplification effects.

Adverse COVID-19 Scenarios are as Important as the Baseline Outlook

To account for all this uncertainty, we have introduced three adverse COVID-19 economic scenarios, ranging from a deep recession all the way to economic crisis scenarios:

The baseline forecast is assigned around a 40% probability, with around a 30% probability assigned to a deep recession scenario, in which global economic activity contracts by 1.5%to 3.5%.

We assign around a 27% probability to our economic crisis scenarios, combining the direct economic costs of social distancing and pandemic-related supply constraints with a financial crisis. The economic crisis scenarios would cause global output to contract by 3.5% to 9.0%in 2020. These crisis scenarios also imply a delayed economic recovery with global output growth in 2021 ranging from -2.0% to 3.0%, compared to 3.7-5.7% growth in the baseline forecast (leaving around 3% probability on a more optimistic faster global recovery scenario). ■

COVID-19 Scenario Probabilities and Assumptions

	Baseline/ Recession	COVID-19 Deep Recession	COVID-19 Crisis	COVID-19 Deep Crisis
2020 Global GDP growth	[-1.5%, 0.0%]	[-3.5%, -1.5%]	[-5.5%, -3.5%]	[-9.0%, -5.5%]
Probability	35-45%	25-35%	15-25%	5-10%
Assumptions				
Global infection rate	1-10%	5-25%	15-35%	20-50%
Mortality rate	0.3-1.3%	0.5-1.5%	1.0-3.0%	1.5-3.5%
COVID-19 strict social distancing restrictions	1-2 quarters	1-3 quarters	2-4 quarters	2-6 quarters
Business and consumer confidence indices fall to	30-50th percentile of historical values	20-40th percentile of historical values	10-20th percentile of historical values	1-10th percentile of historical values
Global stock prices	Rebound by 0-30% in H2 2020	Down by 10-30%	Down by 25-45%	Down by 30-70%
Private sector borrowing rates in advanced economies (relative to government bond interest rates)	Around current level with decline in spreads around 1% in H2 2020	Rise by 1-2 percentage points	Rise by 2-4 percentage points	Rise by 3-6 percentage points
Borrowing rates in key emerging markets (relative to advanced economies' government bond interest rates)	Around current level in H1 2020	Rise by 2-4 percentage points	Rise by 4-7 percentage points	Rise by 6-10 percentage points
Other assumptions	- Government and central bank fiscal stimulus and quantitative easing/lending programmes reduce most of the negative effects of wage cuts and job losses on disposable income and allow most businesses in heavily affected sectors to avoid liquidation	- Cashflow mismatches between business costs and revenues cause business liquidity problems and a rise in bankruptcies- Supply chain and labour supply disruptions worsen production slowdowns and cause shortages for some goods	- Cashflow mismatches between business costs and revenues cause severe business liquidity problems and a rise in bankruptcies- Severe supply chain and labour supply disruptions worsen production slowdowns and cause shortages for some goods	- Cashflow mismatches between business costs and revenues cause severe business liquidity problems and a rise in bankruptcies- Severe supply chain and labour supply disruptions worsen production slowdowns and cause shortages for some goods

Source: Euromonitor International

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The Coronavirus Pandemic will Transform Consumer Behavior